

Cambridge AS & A Level · Economics 9708 · Notes

Addressing income and wealth inequality

AS

Read online at pastopic.com/cambridge/economics-9708/notes/addressing-income-and-wealth-inequality

Last checked 1 October 2026

Read first: [Reasons for government intervention in markets](#), [Methods and effects of government intervention in markets](#)

© 2026 Pastopic. Free for personal study. Please share the link, not the file.

What you need to know

This topic has four learning outcomes:

1. **Income and wealth:** income is a **flow** (money received over a period of time, such as wages per month); wealth is a **stock** (the value of the assets someone owns at one moment, such as a house or savings).
2. **Measuring inequality:** what the **Gini coefficient** shows about how equally income or wealth is shared, and how to read and compare Gini figures. You do not have to calculate it.
3. **Economic reasons for inequality:** why some people have much higher incomes and much more wealth than others.
4. **Policies to redistribute income and wealth**, how each works and its strengths and weaknesses:
 - a **minimum wage**;
 - **transfer payments** (benefits, pensions, grants);
 - **progressive income taxes, inheritance taxes and capital taxes**;
 - **state provision of essential goods and services** (education, health care, housing).

Why inequality is a reason to intervene is in the topic before this one. Poverty, the poverty trap, equity versus efficiency, Lorenz curves and calculating the Gini coefficient come later, at A Level.

Understand it

Income is a flow, wealth is a stock

Income is money received **over a period**: wages and salaries, profits, rent from property, interest on savings, dividends from shares, and benefits and pensions from the government. You always say "per week", "per month" or "per year".

Wealth is the **value of what you own at a point in time**: a house, land, savings in a bank, shares, a business, valuable goods such as paintings. You say "on 1 January" or "today", never "per year".

The two are linked like water and a tank. Income flowing in and not spent is **saved**, and adds to the stock of wealth. Wealth in turn **produces income**: a flat earns rent, savings earn interest, shares pay dividends. So:

- **Savings held in a bank** are wealth; the **interest** they earn is income.
- **Owning a house** is wealth; the **rent** from letting it is income.
- **Owning shares** is wealth; the **dividends** paid on them are income.

A household can have a high income and little wealth (a young doctor renting a flat) or a low income and much wealth (a retired person who owns a valuable house). When interest rates fall and house prices rise, a retired home owner who lives on interest from savings gets **less income** but **more wealth**.

Wealth is usually shared much less equally than income. Wealth builds up over a lifetime and across generations: people with high incomes can save more, their assets earn more income, which they save again, and assets are passed on through **inheritance**. When property or share prices rise, those who already own them become wealthier while those who own none gain nothing.

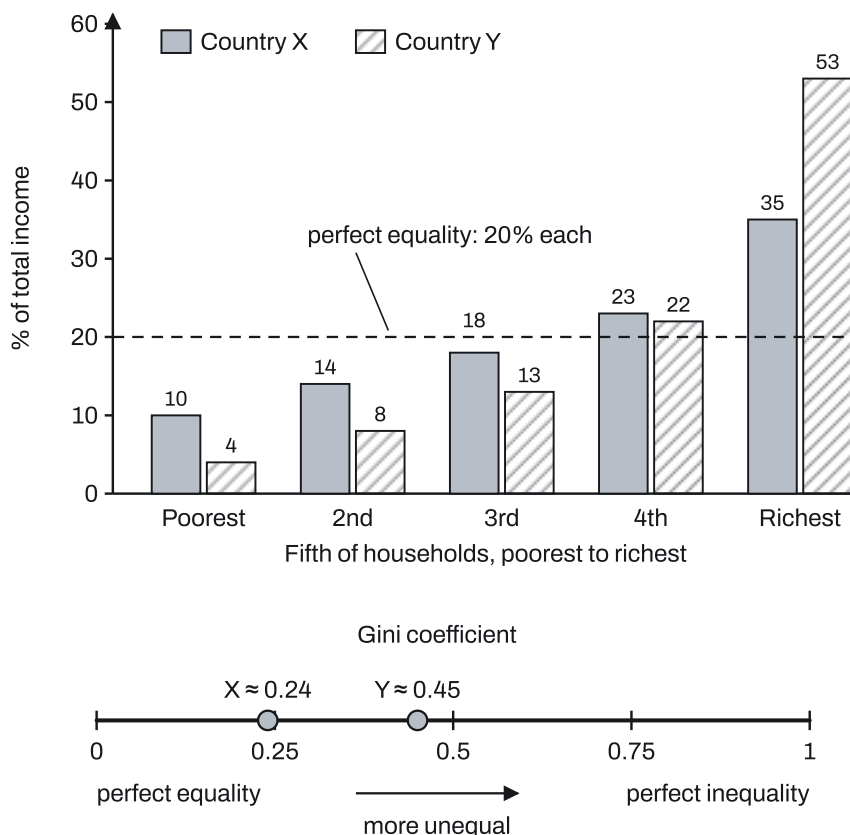
Wealth is also harder to measure than income. Wages are recorded by employers and taxed at source, so income is known. Wealth comes in many forms (property, shares, pensions, private businesses, land, art), some of which are rarely bought or sold, so they have no clear market value; values change all the time; and wealth can be hidden in other countries (tax havens) or passed to family members. **But** much wealth *can* be valued: houses and listed shares have market prices, and property registers and tax records exist, so wealth inequality can be estimated, just less completely and accurately than income inequality.

Measuring inequality: the Gini coefficient

Inequality means income or wealth is shared unevenly across the population. The **Gini coefficient** is a single number that measures how unevenly it is shared:

- **0 = perfect equality**: everyone has exactly the same income (each fifth of households gets a fifth of all income).
- **1 = perfect inequality**: one person has all the income and everyone else has none.
- The **closer to 1**, the **more unequal**; a **rise** means inequality has **increased**, a **fall** means income has become **more equally distributed**.

It is sometimes written as a number from 0 to 100 (52.1 instead of 0.521); it means the same thing. There are separate Gini coefficients for **income** and for **wealth**, and they can be compared: a wealth Gini of 0.7 and an income Gini of 0.5 in the same country mean wealth is shared more unequally than income.



In country X the richest fifth of households receives 35% of all income and the poorest fifth 10%; in country Y the richest fifth receives 53% and the poorest fifth only 4%. Country Y is further from the 20%-each line of perfect equality, so its Gini coefficient is higher (about 0.45 against about 0.24).

How a government uses it: to see whether inequality is rising or falling, to judge whether its policies (taxes, benefits, a minimum wage) are working, to decide whether to spend more on benefits or change tax rates, and to compare itself with other countries.

Its limits:

- It is **one number**: it shows how much inequality there is, but not **which groups** gained or lost, or why. Two quite different distributions can have the same Gini coefficient.
- It says nothing about **living standards**: a country can have a low Gini coefficient and still be poor, and a Gini figure does not show absolute income levels.
- It covers income **or** wealth only, not inequality in access to education or health care.
- It is only as good as the **data**: informal-economy earnings and hidden wealth are left out, and countries collect the data in different ways, so comparisons may be unreliable.

Economic reasons for inequality

Most income comes either from **working** (wages) or from **owning wealth** (rent, interest, profit, dividends). Inequality arises from differences in both.

Differences in earnings from work

- **Education, skills and training.** Skilled workers are scarce and productive, so firms pay them more. People who miss out on education or training can only apply for low-paid jobs.
- **Unemployment and lack of jobs.** People without work, or only able to find part-time or casual work, have little or no income. **Structural unemployment** (jobs lost as industries decline) hits particular groups and regions hard, so inequality rises.
- **Bargaining power.** Workers in strong trade unions or scarce professions can push up their pay; workers in the informal economy or in jobs with many applicants cannot.
- **Discrimination** by gender, ethnicity or age, which keeps some groups out of better-paid jobs.
- **Age and health.** Earnings rise with experience and fall in retirement; long-term illness cuts earnings.
- **Where people live.** Wages and job opportunities are often far higher in cities than in rural regions.

Differences in wealth

- **Inheritance:** some people start life with property and savings, others with nothing.
- **Saving:** higher-income households can save more, so their wealth grows; low-income households spend all their income and cannot buy property.
- **Rising asset prices:** when house and share prices rise, owners get richer and non-owners fall further behind.
- **Access to loans:** people with wealth can borrow (using it as security) to start businesses or buy property; the poor often cannot.

In a low-income country, some reasons weigh more heavily: there are fewer jobs in the formal economy, more people work in low-paid farming or informal jobs, the government has less money for education, training, health care and infrastructure, and poor people find it hard to borrow.

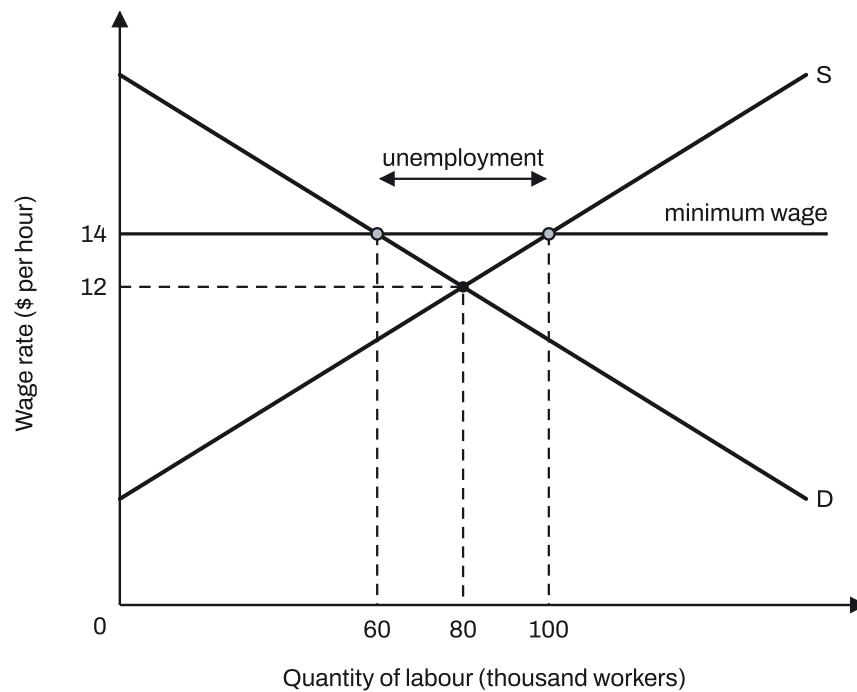
Can inequality help an economy? Some inequality gives **incentives**: higher pay rewards workers who train, work harder or take the risk of starting a business, and the savings of richer people can fund investment. But large inequality means poorer households cannot afford education or health care, so talent is wasted; it can cause social tension and crime; and it is widely seen as unfair. Judgements about how much inequality is acceptable are **normative**.

Policies to redistribute income and wealth

To **redistribute** means to take income or wealth from the better off, or to give extra to the worse off, so that the distribution becomes less unequal. The syllabus names four kinds of policy.

1. A minimum wage

A **minimum wage** is a legal minimum price for labour: employers may not pay less than a set rate per hour. It works like any minimum price: it only has an effect if it is set **above** the equilibrium wage.



Here demand for labour is $W = 20 - \frac{L}{10}$ and supply of labour is $W = 4 + \frac{L}{10}$ (L in thousand workers), so the market pays \$12 an hour to 80 thousand workers. A minimum wage of \$14:

- **Raises the pay of the lowest paid:** the 60 thousand who keep their jobs earn \$2 more an hour, which narrows the gap between the lowest and highest earners. It may also move some income from **profits** to wages.
- **Encourages people to work:** more people want jobs at \$14 (supply extends to 100 thousand), and higher pay can raise morale and productivity.
- **But it can cause unemployment:** firms employ fewer workers (demand contracts to 60 thousand), so there is excess supply of labour of $100 - 60 = 40$ thousand. The 20 thousand who lose their jobs are **worse** off, and inequality may even rise. Job losses are larger when demand for labour is **elastic** (firms can switch to machines or move production abroad).

Other weaknesses:

- **Higher-paid workers may restore their pay differentials:** if they win rises too, the gap is not narrowed.
- **Cost-push inflation:** firms pass higher wage costs on in higher prices, which cuts the real value of the rise.
- **It only helps people who have a job:** nothing for the unemployed, pensioners, most of the self-employed or those in the **informal economy**. It works best where the informal economy is **small** and the law is **enforced**.
- **It is cheap for the government:** the cost falls on employers, not the budget.

2. Transfer payments

A **transfer payment** is money paid to someone **without any good or service being produced in return**: it moves (transfers) income from one person to another rather than paying for production. The main ones come from the government: unemployment benefit, state pensions, sickness and disability benefits, child benefit,

housing benefit and grants to students. They are paid for out of taxes, so income moves from taxpayers to recipients.

It is **not** a transfer payment when the government pays for something that is produced: wages of teachers, nurses, soldiers or civil servants (payment for work), and spending on roads, hospitals or police cars (payment for goods). A payment does not have to come from the government or be in cash to be a transfer payment: an allowance a parent gives a child is one too, because nothing is produced in return.

Benefits can be:

- **Means-tested:** paid only to those whose income or wealth is below a limit. Well targeted, but some people entitled to them do not claim.
- **Universal:** paid to everyone in a group (every pensioner, every family with children). Easy to run, but some goes to people who do not need it.

A **flat payment**, the same amount to everyone below an income limit, is **progressive** in its effect: \$600 is 6% of a \$10 000 income but only 1% of a \$60 000 income.

Strengths: they go straight to those with low incomes, including people a minimum wage cannot reach (the unemployed, the old, the sick); they can be targeted at particular groups; they raise the spending of households who spend most of what they receive.

Weaknesses: they cost the government a lot (an **opportunity cost**, or higher taxes); generous unemployment benefits can be a **disincentive to look for paid work**, because taking a job may leave a person little better off; they treat the symptom (low income), not the cause (lack of skills or jobs); and they can create dependency.

3. Progressive income taxes, inheritance taxes and capital taxes

Direct taxes are taxes on income and wealth. How a tax affects inequality depends on the **average rate of tax**, the percentage of income paid in tax:

- **Progressive tax:** the average rate **rises** as income rises. The rich pay a larger **percentage** of their income, so the gap after tax is smaller than before tax.
- **Proportional tax:** the average rate is the **same** at every income (for example 20% of everything). Richer people pay more dollars but not a larger share.
- **Regressive tax:** the average rate **falls** as income rises. Most **indirect taxes** (on spending) are regressive, because poorer households spend a larger share of their income.

Income tax is made progressive with **bands**: a tax-free allowance, then higher **marginal rates** (the rate on each extra dollar) on higher slices of income. For example, 0% on the first \$10 000, 20% on the next \$30 000 and 40% on everything above \$40 000:

Income	Tax	Average rate
\$20 000	$0.2 \times 10\,000 = \$2000$	10%
\$100 000	$0.2 \times 30\,000 + 0.4 \times 60\,000 = \$30\,000$	30%

The average rate rises from 10% to 30%, so the tax is progressive. Raising the top marginal rate or adding a higher band makes it more progressive.

Inheritance tax is a tax on wealth passed on when someone dies, above a tax-free limit. It targets the main way wealth inequality passes from one generation to the next. **Capital taxes** tax wealth or gains from it: **capital gains tax** on the profit when assets such as shares or property are sold, and **wealth** or **property taxes** on the value of assets held.

Strengths: they take more from those who have most, and the revenue can pay for transfer payments and state provision, so they reduce inequality twice over.

Weaknesses: high rates may **reduce incentives** to work, invest, save or start businesses, and skilled people or firms may **move abroad**; the rich may **avoid** tax legally (tax havens, passing assets to family) or **evade** it illegally; wealth taxes are hard to value and costly to collect; and taxes alone do nothing for people with no income at all.

4. State provision of essential goods and services

The government can provide **education, health care, housing, water or public transport** free or below cost. This raises the **real income** of poorer households (they no longer have to pay for these), and because everyone can use them, it gives everyone the same basic chances.

Education and training are especially important: they tackle a **cause** of inequality by giving people the skills to earn higher incomes in future. **But** the effect takes years; poorer families may still not use the service (they may need children to start earning, or not know the benefits, a case of **imperfect information**); the quality may be poor; and it has a large opportunity cost that must be paid for from taxes.

Why redistributing wealth is harder than redistributing income

- Income tax and benefits already exist and are collected and paid **regularly**; income is **recorded** by employers, so it is easy to measure and changes take effect quickly.
- Wealth is hard to **measure and value** (many forms, some never traded), can be **hidden** abroad or given to family members, and wealthy people often have the advisers and political influence to resist wealth taxes.
- Wealth taxes can force people who own a valuable asset but have a low income (a farmer, a retired home owner) to sell it.
- Wealth can still be redistributed, slowly: inheritance and property taxes, and helping poorer households **build** assets (help to buy homes, access to education, grants to start small businesses).

Key facts and formulas

There is no formula list in the exam for 9708, so every line is "Learn it".

Formula or fact	Status
Income is a flow (per period); wealth is a stock (value of assets at a point in time)	Learn it
Wealth = total value of assets owned (property, savings, shares, businesses ...); interest, rent, dividends, wages and benefits are income	Learn it
Gini coefficient: 0 = perfect equality, 1 = perfect inequality (or 0 to 100); higher means more unequal	Learn it
Transfer payment: a payment with no good or service produced in return	Learn it
Total transfer payments = sum of benefits, pensions, grants ... (not wages or spending on goods)	Learn it
Average rate of tax = $\frac{\text{tax paid}}{\text{income}} \times 100\%$	Learn it
Marginal rate of tax = the rate paid on each extra dollar of income	Learn it
Progressive: average rate rises with income; proportional: constant; regressive: falls	Learn it
Unemployment at a minimum wage above equilibrium = labour supplied – labour demanded	Learn it

How to do it

In the questions we have tagged for this topic (36 questions, 2021–2025), 30 are Paper 1 multiple choice and 6 are Paper 2 data response or essay questions. 4 of the Paper 2 questions have parts of more than one type, so the counts add up to 42.

Question type	Questions
Multiple choice: what is a transfer payment, and totals	13
Multiple choice: income or wealth, stock or flow	7
Multiple choice: effects of redistribution policies and taxes	7
Multiple choice: reading Gini coefficient data	3
Assess policies to redistribute income and wealth (12 marks)	3
Explain economic reasons for inequality (8 marks)	3
Explain what the Gini coefficient or a change in it shows	3
Income versus wealth: measuring wealth, or redistributing it	2
Assess a policy to raise the incomes of poorer households (6-mark data response)	1

Paper 2 marking (data response parts and the 8- and 12-mark essay parts) is set out in "How to get the marks".

1. Multiple choice: what is a transfer payment, and totals (13 questions)

1. **Ask: is anything produced in return?** If not, it is a transfer payment: pensions, unemployment benefit, welfare payments to the sick, student grants, child benefit.
2. **Rule out payments for production:** wages and salaries (teachers, soldiers, civil servants), spending on roads, hospitals, police cars, payments for raw materials, dividends and rent.
3. **For a total,** add only the transfer payments, and for a change, subtract period 1 from period 2 for those items only.

Variations you will meet:

- **"What is necessary for it to be a transfer payment?"** Only that no production takes place in return. It need not be in cash, go through a bank or come from the government.
- **A private transfer:** an allowance from a parent to a child counts.
- **Look-alikes:** a fee to "transfer" ownership of a house or a footballer is a payment for a service, and interest on a loan or a firm's advertising is not a transfer.
- **Disadvantage of benefits for the unemployed:** a disincentive to accept paid work (not higher inequality or poverty).
- **"The government wants to reduce transfer payments":** consistent with "unemployed workers need more incentive to find jobs", not with higher pensions or more spending.

2. Multiple choice: income or wealth, stock or flow (7 questions)

1. **Wealth** is what you **own**: a house, property, savings held in the bank, shares.
2. **Income** is what you **receive** in a period: wages, interest, dividends, profits, rent, benefits and pensions.
3. **To value wealth,** add the assets only; leave out wages, benefits, dividends and interest.

Variations you will meet:

- **Why is wealth harder to measure?** Not every asset can be traded in a market, so it has no clear price.
- **What makes wealth inequality grow faster than income inequality?** A rise in the value of **property**: owners gain, non-owners do not.
- **Who gets less income but more wealth?** When interest rates fall and house prices rise: retired people who own their houses (less interest, more valuable homes).
- **Income and wealth Gini coefficients can be compared** directly; the flow/stock difference does not stop that.

3. Multiple choice: effects of redistribution policies and taxes (7 questions)

1. **Reduce inequality:** more progressive taxes, a higher minimum wage, more transfer payments, more state provision.
2. **Increase inequality:** the reverse (less progressive tax, a lower minimum wage, fewer transfer payments).
3. **Which tax reduces inequality?** A progressive income tax (not proportional taxes or indirect taxes).

Variations you will meet:

- **Combinations in a table:** tick the policies that take more from the rich or give more to the poor. A subsidy on expensive goods only the rich can afford (luxury cars) does **not** reduce inequality.
- **A policy that cuts inequality but also cuts employment:** a big rise in an effective minimum wage.
- **When does a minimum wage do most for inequality?** When the informal economy is small, so the law covers most workers; not when higher-paid workers keep their differentials or when it causes unemployment.
- **A flat payment to everyone below an income limit** is progressive.
- **Reading a chart of low pay over time:** state only what the chart shows (for example whether a trend changed after a minimum wage was introduced); don't claim it caused more than the data can show.

4. Multiple choice: reading Gini coefficient data (3 questions)

1. Higher number = more unequal. Compare **levels** (which country is most equal now) and **changes** (did it rise or fall).
2. A Gini coefficient says **nothing about the level** of income: "highest consumer income" can never be concluded from it.
3. **Causes of a rise:** things that hurt the lowest incomes or help the highest, such as more structural unemployment. Subsidies on food and energy, a higher minimum wage or a higher top rate of tax would all lower it.

5. Assess policies to redistribute income and wealth (3 questions)

A 12-mark essay part: "is a minimum wage the best way...", "which policies are most effective...", "how successful are policies..."

1. **Knowledge and analysis (Table A, 8 marks):** define redistribution; for **at least two** policies, explain how each narrows the gap (a developed chain: policy → who gains or loses → effect on the distribution) and its problems. "**Best way**" or "**most effective**" questions need the named policy **and** at least one alternative, each with strengths and weaknesses; with only one policy you cannot get above Level 2.
2. **Evaluation (Table B, 4 marks):** compare the policies against each other: which reaches the poorest (a minimum wage misses the unemployed and informal workers; transfer payments reach them), cost to the government, side effects (unemployment, disincentives, avoidance), how quickly it works, and what it

depends on (elasticity of demand for labour, size of the informal economy, how enforced). End with a justified conclusion, often that a **combination** works best (progressive taxes to fund transfer payments and education).

Keep every point tied to **redistribution**: examiners report good analysis of policies that stayed in Level 2 because it was not linked to how it changes the distribution.

6. Explain economic reasons for inequality (8 marks) (3 questions)

1. **AO1, 3 marks**: what inequality means (income or wealth unevenly distributed among the population), then **two** reasons, each named and explained (education and skills, unemployment, wealth and inheritance, low savings and rising property prices, discrimination, lack of access to loans).
2. **AO2, 3 marks**: develop each reason in the context asked: for a **low-income country**, say why it matters more there (less developed industry, little government money for training); for "wealth cannot easily be measured", the reasons in "Understand it"; for "can inequality benefit an economy", the incentives argument against the costs.
3. **AO3, 2 marks**: weigh the two reasons (or the two sides) against each other, and give a justified conclusion, for example which reason is strongest in a low-income country.

7. Explain what the Gini coefficient or a change in it shows (3 questions)

A 2-mark data part: 1 for what it measures (income inequality), 2 for saying what the change means (a fall means income is more equally distributed).

An 8-mark essay part ("explain what this data means, how the government might use it, and consider its usefulness"):

1. **AO1**: what the Gini coefficient measures; 0 is complete equality and 1 complete inequality; what the change in the question means.
2. **AO2**: how the government uses it (judging the success of taxes and benefits, deciding future policy, comparing with other countries), and that it depends on accurate data.
3. **AO3**: its limits (does not show which groups gained or lost, ignores wealth and access to services, says nothing about income levels), weighed against its value for comparisons over time and between countries; a conclusion.

8. Income versus wealth: measuring wealth, or redistributing it (2 questions)

Part of an 8-mark part ("consider why wealth inequality cannot easily be measured") or a 12-mark part ("assess why it is easier to redistribute income than wealth"). Use the lists under "Income is a flow" and "Why redistributing wealth is harder" in "Understand it". For "cannot easily be measured", the evaluation must be **balanced**: the reasons it is hard, **against** the fact that houses and listed shares have market prices and property and tax records exist, so estimates are possible but incomplete; then conclude.

For the 12-mark version, **both** sides for **each**: income redistribution is easy through existing taxes and benefits, **but** the rich avoid tax and high rates blunt incentives; wealth can be redistributed by inheritance and property taxes and by helping the poor build assets, **but** wealth is hard to value, hidden and politically protected. Then judge how much easier income is and why.

9. Assess a policy to raise the incomes of poorer households (1 question)

A 6-mark data response part, such as more government spending on education.

1. **For** (up to 3): the chain from the policy to higher future earnings (more skills → better-paid jobs), made affordable for poorer households; use the extract's numbers.
2. **Against** (up to 3): poorer families still face costs (children could be earning), information failure, time lags, the spending may not last.
3. **Evaluation** (2, none if one-sided): what it depends on (time, how well targeted) and a conclusion.

Worked examples

Example 1

The table shows some items of government spending in two years.

Item	Year 1 (\$m)	Year 2 (\$m)
State pensions	400	460
Unemployment benefit	250	190
Building new schools	300	350
Wages of nurses	500	540
Grants to students	60	80

By how much did transfer payments change between year 1 and year 2?

- **A** −\$40m
- **B** +\$20m
- **C** +\$60m
- **D** +\$110m

[1]

The transfer payments are pensions, unemployment benefit and student grants; nothing is produced in return. Year 1: $400 + 250 + 60 = 710$. Year 2: $460 + 190 + 80 = 730$. Change = +\$20m. The answer is **B**. (1)

C also counts nurses' wages (payment for work); D adds every item.

Example 2

A country's income Gini coefficient rose from 0.31 to 0.36. Explain what is meant by this change. [2]

The Gini coefficient measures how unequally income is distributed, from 0 (everyone has the same income) to 1 (one person has all the income). (1) A rise from 0.31 to 0.36 means income has become **less** equally distributed: the gap between high and low incomes has widened. (1)

Example 3

Explain the difference between income and wealth, and consider why wealth is usually distributed more unequally than income. [8]

Income is a flow: the money a person receives over a period of time, such as wages, rent, interest and benefits per year. (AO1, 1) Wealth is a stock: the value of the assets a person owns at a point in time, such as a house, savings and shares. (AO1, 1) The two are linked, because income that is saved adds to wealth, and wealth earns income such as interest and dividends. (AO1, 1)

Wealth builds up: a household with a high income can save part of it, the savings earn interest, and the interest is saved again, so the gap grows year after year, while a low-income household spends everything and builds no wealth. (AO2, 1) Wealth is also passed on through inheritance, so the gap carries over from one generation to the next. (AO2, 1) When property and share prices rise, owners become richer without earning anything more, while people who own no property fall further behind. (AO2, 1)

However, the difference depends on policy: inheritance taxes, capital gains taxes and schemes that help poorer families buy homes slow down the build-up of wealth, while income can also be very unequal where unemployment is high. (AO3, 1) So wealth is usually more unequal because it accumulates and is inherited, and it will stay so unless the government taxes wealth itself rather than only income. (AO3, 1, justified conclusion)

Total: 3 + 3 + 2 = 8.

Example 4

Assess whether transfer payments are a better way than a minimum wage to reduce income inequality. [12]

Knowledge and analysis (Table A):

A minimum wage is a legal lower limit to the hourly wage, set above the equilibrium wage. The lowest-paid workers who keep their jobs earn more, narrowing the gap between them and higher earners, and it costs the government nothing because employers pay. *Diagram: demand and supply of labour, the minimum wage above equilibrium, employment and labour supplied marked, the unemployment labelled.* But at the higher wage firms employ fewer workers; those who lose their jobs end up with lower incomes, so inequality may widen. Higher-paid workers may win rises to keep their differentials, and the minimum wage does nothing for the unemployed, pensioners or informal-economy workers.

Transfer payments, such as unemployment benefit and pensions, are paid to people on low incomes without anything being produced in return, and are financed by taxes, so income is moved from better-off taxpayers to poorer households. They reach exactly the groups a minimum wage misses. But they cost the government a lot, with an opportunity cost in spending elsewhere or higher taxes, and generous benefits can discourage people from taking paid work.

(Balanced analysis of both policies, each with strengths and weaknesses, linked to how they change the distribution of income, with the diagram explained: Level 3, 8 marks.)

Evaluation (Table B):

Transfer payments are better targeted: they reach the poorest households, many of whom have no job, while a minimum wage helps only those in formal employment and may even create unemployment if demand for labour is elastic. A minimum wage works better where the informal economy is small and the law is enforced, and where the government cannot afford higher spending. So transfer payments are usually the better way to reduce inequality among the poorest, but the best approach combines them with a modest minimum wage, so that work still pays more than benefits.

(A judgement that compares the two, says what the answer depends on and reaches a justified conclusion: 4 marks.)

Total: 8 + 4 = 12.

Common mistakes

- **Mixing up 0 and 1 on the Gini coefficient.** Examiners report candidates who reversed them, and who were unsure whether a rise meant more or less equality. 0 is perfect equality; a **rise** means **more inequality**.
- **Confusing equality with equity.** Equality means equal shares; equity means fairness. The Gini coefficient measures equality.
- **Calling interest, rent or dividends wealth.** They are income (flows). The savings, property and shares that produce them are wealth.
- **Counting wages of public-sector workers as transfer payments.** Teachers and nurses produce a service in return; pensions and benefits are the transfers.
- **Analysing a policy without linking it to redistribution.** Examiners report answers with good strengths and weaknesses of each policy that stayed in Level 2 because they never said how the policy changes the **distribution** of income or wealth.
- **Only one policy in a "best way" or "most effective" answer.** At least one alternative must be analysed, or the answer is capped at Level 2 and gets no evaluation marks.
- **Asserting reasons for inequality without explaining them.** "Education" is not a reason until you explain the chain: fewer skills → only low-paid jobs → lower income.
- **Summarising instead of evaluating.** A final paragraph that repeats the points earns little; compare the arguments and say which is stronger, and why.

- **Muddling tax types.** A single flat rate on all income is **proportional**, even though richer people pay more dollars; a tax is progressive only if the **average rate** rises with income. And don't discuss proportional taxes when asked only about progressive and regressive ones.
- **No conclusion in essay part (a).** A quarter of the 8 marks is evaluation, so it needs a justified conclusion too.

How to get the marks

- **Command words.** *Explain*: how and why, linked with "so" and "because". *Consider*: explain, then a short judgement. *Assess / discuss*: both sides, then a judgement that answers the exact words ("best way", "most effective", "easier").
- **Definitions first.** One accurate sentence each for income (flow), wealth (stock), the Gini coefficient (0 to 1), transfer payment, progressive tax. Definitions earn the AO1 marks quickly.
- **Data response 2 marks:** meaning (1) plus what the change shows (1). **6 marks:** up to 3 for each side (4 in all), then what it depends on (1) and a conclusion (1); one-sided answers lose both evaluation marks.
- **Essay (a), 8 marks: 3 + 3 + 2.** AO1: definitions and the reasons or facts asked for. AO2: developed analysis in the question's context (a low-income country, the government's use of data). AO3: weigh them and give a justified conclusion.
- **Essay (b), 12 marks: 8 + 4.** Level 3 needs balanced, explained analysis of more than one policy; evaluation needs a comparison of the policies and a justified conclusion ("a combination of progressive taxes and transfer payments is most effective because ...").
- **Use the data.** Quote the numbers you are given ("the Gini coefficient fell from 0.39 to 0.33") and the country named.
- **A diagram helps a minimum wage answer:** demand and supply of labour, the minimum wage above equilibrium, employment and unemployment marked, then explained in words.
- **Multiple choice:** for transfer payments ask "was anything produced?"; for wealth ask "is it owned, or received?"; for Gini data, higher means more unequal and says nothing about income levels.

Quick check

1. Which of these is a flow rather than a stock?
 - **A** a house worth \$200 000
 - **B** the dividends paid on shares last year
 - **C** savings of \$8000 in a bank account
 - **D** shares worth \$5000
2. Maya owns a house worth \$150 000, a car worth \$12 000, bank savings of \$8000 and shares worth \$5000. She earns a salary of \$30 000 a year, receives \$200 a year in interest and \$1200 a year in child benefit. What is the value of her wealth, and what is her annual income?

3. Income tax is 0% on the first \$12 000 of income, 20% on income from \$12 000 to \$50 000 and 45% on income above \$50 000. Find the tax and the average rate of tax on incomes of \$20 000, \$50 000 and \$150 000. Is the tax progressive?
4. The income Gini coefficient of country J was 0.42 in 2020 and 0.38 in 2025; for country K it was 0.29 in 2020 and 0.31 in 2025. Which country had the more equal distribution of income in 2025, and which became more unequal?
5. Explain why a rise in the minimum wage may not reduce income inequality. **[4]**

Answers

1. **B.** Dividends are income received over a period; the house, savings and shares are wealth. (1)
2. $\text{Wealth} = 150\,000 + 12\,000 + 8\,000 + 5\,000 = \$175\,000$. $\text{Income} = 30\,000 + 200 + 1\,200 = \$31\,400$ a year. The interest and benefit are income, not wealth.
3. $\$20\,000: 0.2 \times 8\,000 = \$1\,600$, an average rate of 8%. $\$50\,000: 0.2 \times 38\,000 = \$7\,600$, 15.2%. $\$150\,000: 7\,600 + 0.45 \times 100\,000 = \$52\,600$, 35.1%. The average rate rises with income, so the tax is **progressive**.
4. Country K had the more equal distribution in 2025 (0.31 is lower than 0.38). Country K became more unequal (its Gini rose), while J became more equal (its Gini fell).
5. If the minimum wage is set above the equilibrium wage, firms demand fewer workers, so some low-paid workers lose their jobs and have lower incomes (1), which can widen inequality (1). Higher-paid workers may win pay rises to keep their differentials, so the gap between high and low earners stays the same (1). And it does not help people outside formal employment, such as the unemployed, pensioners and workers in the informal economy, who are often the poorest (1).

Past questions to try

- [9708/12/O/N/25 Q14](#): what could make a Gini coefficient rise.
- [9708/11/M/J/23 Q16](#): valuing a person's wealth from a list of income and assets.
- [9708/13/M/J/22 Q15](#): the change in transfer payments from a spending table.
- [9708/22/M/J/24 Q2](#): part (b), how successful policies to redistribute income and wealth are likely to be.